



MONTANA LEGISLATIVE BRANCH

Legislative Fiscal Division

Room 110 Capitol Building * P.O. Box 201711 * Helena, MT 59620-1711 * (406) 444-2986 * FAX (406) 444-3036

Legislative Fiscal Analyst
CLAYTON SCHENCK

DATE: November 8, 2008

TO: Legislative Finance Committee

FROM: Lois Steinbeck
Senior Fiscal Analyst

RE: Graying of Montana - State Employee Health Insurance Plan

INTRODUCTION

During the 2007-2008 interim, the Legislative Finance Committee (LFC) has considered several issues related to the graying of Montana. Like other governments and businesses, Montana state government is facing the retirement of the baby boomer cohort and challenges in succession planning, competition for employees from a smaller workforce, and funding retiree costs, including continued participation in the state employee group health insurance plan¹.

This summary highlights two issues related to state of Montana retiree health care costs:

- o Subsidies for retirees continued participation in the state health plan
- o The amount of and requirement to record unfunded amortized costs of these subsidies on the Montana Comprehensive Annual Financial Statement (CAFR)

RETIREE PARTICIPATION

When persons retire from employment² with the state of Montana, they have the option of continuing health care coverage with the state employee health plan by paying the full premium and cost shares³. Persons who are Medicare eligible must purchase Part A and Part B coverage if they choose to remain in the state plan. Medicare then becomes the primary payor, with the state plan being secondary. Premiums for retirees are set equivalent to that paid by current employees.

Retirees generally consume more medical services than active employees, running loss ratios exceeding 100 percent, meaning that costs are greater than revenue⁴. As a group, retirees under 65 years old have loss ratios around 150 percent and Medicare eligible retirees have loss ratios

¹ The state of Montana self insures its employee health insurance plan, assuming all claims liability.

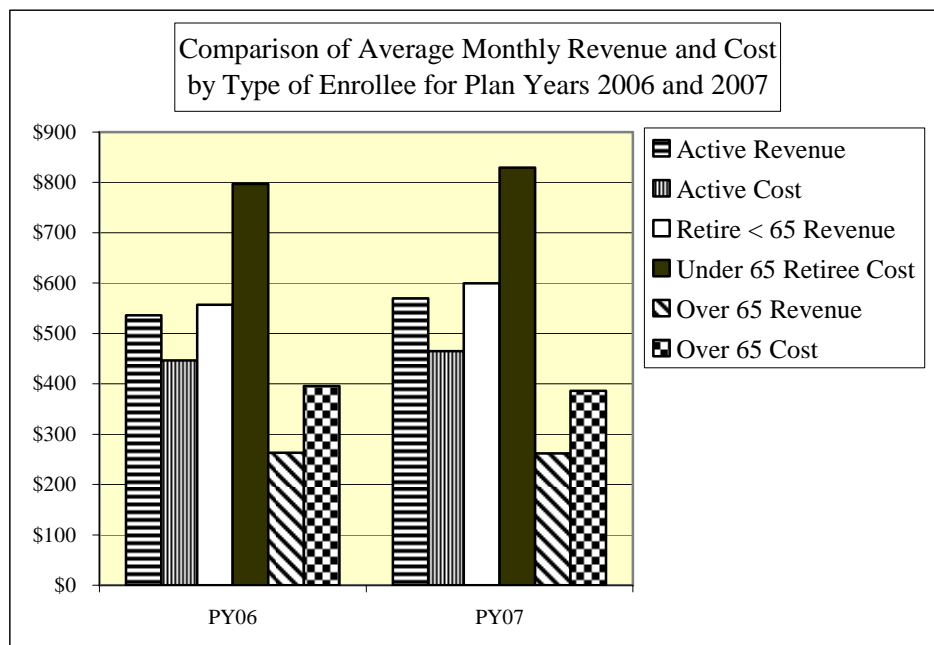
² Retirees must elect to start medical coverage with 60 days of retirement. Medicare eligible retirees must be enrolled in Part A and Part B coverage.

³ 2-18-405(5), MCA

⁴ For example, a loss ratio of 150 percent means that for every \$100 in revenue received for a cohort, health plan costs were \$150.

between 105 to 120 percent. In comparison, loss ratios for active employees have ranged from 80 to 95 percent over the last several years. Figure 1 shows loss ratios for plan years 2005 to 2007⁵.

Figure 1



Consequently, premiums paid by active employees, including the monthly employer contribution, subsidize the cost for retirees because the state plan charges active employees and retirees under 65 the same monthly premium regardless of costs. Medicare eligible retirees are charged a lower premium since Medicare pays a share of medical costs. Despite Medicare coverage, retirees over 65 still incur costs above premium payments.

Statute allows retirees to participate in the health plan by paying the full premium and cost share. Full premium is not defined in statute.

The university system manages a self insured employee health plan and retirees can elect to continue participation in the plan. The university system charges retirees a higher premium than active employees, but still subsidizes the cost of benefits.

GASBE 45

Public employee health plans often have an unfunded liability due to subsidies provided to retirees who continue to participate in health plans. The Governmental Accounting Standards Board (GASB) issued Statement Number 45: Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions. Health plans are the primary type of post

⁵ The group health insurance plan year runs from January 1 to December 31, in tandem with federal tax years. The plan year is structured that way because the state also administers flexible spending accounts that allow employees to set aside funds for child care and out of pocket medical costs that are deducted from pay prior to taxation.

employment benefit addressed by GASB 45, which requires state and local governments to account for unfunded liabilities on government wide annual reports.

The Health Care and Benefits Division of the Department of Administration (DofA) received an actuarial evaluation, which estimated a total unfunded, accrued liability of \$449.3 million dollars (total funds) for the Montana state employee group health benefit plan of as of 12/31/2007. The liability is based on the premise that the state will continue the level of subsidy for retiree participation in the state employee group health plan. Montana reported an annual liability of \$41.2 million for FY 2008.

The actuarial estimate was based on assumptions of:

- o The number and age of retirees by retirement plan
- o A participation rate of 47 percent
- o Age related adjustments to average claims cost
- o Inflation rates of 5 to 8 percent for medical costs and 5 to 13 percent for prescription costs from 2007 through 2015 and beyond
- o Retiree contribution cost increases ranging from 4 to 11 percent
- o A 4.25 percent yield on investments

POTENTIAL LFC ACTION

The LFC may wish to request that the 2011 biennium LFC members review policy issues related to pricing of state group health insurance either separately or in conjunction with the Interim Committee on State Administration and Veterans' Affairs. Specific objectives could include review of:

- o Other state government health plans and subsidy of retiree participation in those plans, including the Montana university system
- o Legal requirements to provide a subsidy to retirees
- o Optional pricing strategies
- o Legislative action to provide guidance on state health plan premium pricing

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